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HEARD ON THE STREET

Death Industry Is No Safe Haven in a Pandemic

Funeral and cemetery providers would seem to have a reliable and possibly even enhanced stream of business during the Covid-19 pandemic, but they can be pinched in other ways

A company in the funeral business depends much more on economic than on mortality indicators in the short run.

PHOTO: JUSTIN LANE/SHUTTERSTOCK

By Spencer Jakab
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Trying to think of businesses that could not only hold their own but possibly prosper in the pandemic would make for a very short list. One that comes to mind is the death-care industry, but the opposite may be true.

People are deferring all sorts of purchases, particularly when it comes to services, but we can't do much to postpone the end of life. Even before the pandemic, companies like Service Corp. International, with a 15% market share of funerals in North America, were positioned for decades of growth as the baby boom generation aged. Some 2.84 million Americans died in 2018, and the Census Bureau expects that to reach 3.6 million in 2037.

Sadly, some of those people passed away prematurely as Covid-19 became a leading cause of death in recent days for Americans. But a company in the funeral business depends much more on economic than on mortality indicators in the short run. A major recession and stock-market slump could impact it severely.

A large part of Service Corp.'s sales are "pre-need," in which salespeople sell a cemetery plot, funeral service or both to people who may have many years left to live. The funds are generally placed in a trust and invested until the services are rendered. The company can earn money from any excess return or be on the hook if funds are insufficient to cover future promises. Its "backlog" is around $12 billion, while it had $3.23 billion in sales in 2019.

Back in 2008, when stocks last entered a bear market, Service Corp.'s various trusts slumped by around 25%. Its sales also fell in both 2008 and 2009, despite no sudden jump in life expectancy. They have risen in nine out of 10 years since and the one drop was nowhere as sharp.

People feeling a financial pinch are less likely to pay thousands of dollars for a service they hope they won't need for many years. If they do, then they might opt for a cheaper option such as a less-ornate casket. The long-term trend toward normally cheaper cremation instead of burial has long been a headwind for death-care providers. That is, if they can make the sale at all: During the pandemic, people locked down aren't only worried about their nest eggs and salaries but also far less likely to encounter a funeral salesperson, at least face-to-face.

During the last bear market, Service Corp. shares had a minus-78% total return, falling far more sharply than the S&P 500. So far, they are outperforming the market slightly. If the period of social distancing lasts months, and especially if the recent recovery in share prices proves fleeting, betting on further outperformance could be a grave error.

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